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SIPDIS

DEPT FOR SCA/FO, SCA/RA, AND SCA/A  
DEPT PASS AID/ANE  
DEPT PASS USTR FOR GERBER AND KLEIN  
DEPT PASS OPIC FOR ZAHNISER  
DEPT PASS TDA FOR STEIN AND GREENIP  
TREASURY FOR LMC DONALD, ABAUKOL, BDAHL, AND MNUGENT  
COMMERCE FOR DEES, CHOPPIN, AND FONOVIKH

SIPDIS

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TAGS: [EAIR](#) [PGOV](#) [AF](#)  
SUBJECT: Safi Aviation's Future in Afghanistan Uncertain

¶1. (SBU) Econoff met April 24 with Rami Alhmad, Dubai-based managing director of privately held Safi Group and Safi Afghan Airways. Alhmad fretted that Safi's business prospects were perilous but possibly salvageable with a full reorganization. He said that Safi is currently losing USD 12,000-15,000 daily for three reasons: 1) use of a cost-inefficient long-haul aircraft (Boeing 767-200) on the Dubai-to-Kabul short-haul route; 2) competition; and 3) what Alhmad characterized as "the hostile business environment within Afghanistan." Alhmad said that since its inception last year, Safi Airways has been "a status symbol" for the Afghan based Safi-group. The group wanted the best possible service to/from Kabul and had "plunged into the market uneducated" with a long-range wide-body Boeing 767 to offer service from Kabul to Dubai and London. Unfortunately, Safi entered the market before it received European Union approval for its U.K. routing, which is not forthcoming -- at least in the foreseeable future -- because of the lack of security and safety oversight capacity of the Afghan Ministry of Transportation and Civil Aviation (MoTCA). This left Safi with only the Dubai-Kabul route, on which it must compete both with state-owned and subsidized Ariana Afghan Airlines and with KamAir, the established private-market leader. Alhmad noted that if Ariana went away, Safi would have a better chance of flying at capacity on its single route, and filling service gaps left by the other two private-sector airlines.

¶2. (SBU) The Safi Group, concerned about the performance of its airline, used a corporate "headhunting" service to hire Alhmad, who has a mandate to restructure the company. Alhmad said that after a thorough examination of Safi's books, he advised Mr. Safi to temporarily stop operations for three to six months while he undertook the reorganization. Mr. Safi, however, had refused and said that the group would underwrite the airline's debt for "a few more months" to determine if reorganization was possible. Alhmad stated that the reorganization was underway, with Safi arranging to purchase two "more appropriate" Boeing 737-400 aircraft from Air China; Safi was also looking at two additional Boeing 767-200 aircraft from a U.S. broker. Key to its plans had been intense negotiations in Kuwait that would allow Kabul-Frankfurt and Kabul-Paris flights, with a stop in Kuwait for a full security screening. Alhmad said Safi was nearing agreement with the Kuwaiti authorities and would begin the flights in the next few months if they secured the aircraft. The final aircraft deals were contingent on financing, and Safi was in negotiation with IFC and Pakistan Bank (Kabul) for an immediate cash injection. Alhmad was also negotiating with the Indian government to authorize Kabul to Delhi, Mumbai, and Kolkata flights.

13. (SBU) The other part of the reorganization involved firing most existing expatriate staff, which Alhmad alleged Mr. Safi had hired with little examination of their qualifications. Alhmad said the firings had caused some further staff to resign, but assured that he was interviewing a new and more qualified staff from Russia, South Africa, and the U.S. He was also re-interviewing cabin staff and if possible, would hire and train Afghan nationals to supplement existing cabin crew.

14. (SBU) Alhmad said the business environment in Kabul complicated any plans, and was another reason the group had decided to "hub" out of Kuwait. Safi spent considerable sums on providing its own ground handling and private security at Kabul with the Afghan government unable to provide most services. Alhmad frankly admitted that he had never been to Afghanistan and was unaware of many problems at Kabul Airport, but would shortly be taking his first trip to Kabul to look at the situation. He said he planned to leave most dealings with the Afghan government to Mr. Safi and "his connections." Econoff scheduled a second meeting with the Safi Group in Afghanistan in early May to further discuss restructuring plans.

15. (SBU) Comment: Safi Airways' situation is perilous because of a series of bad business decisions and because of the business climate in Afghanistan. It is quite likely that Safi will soon withdraw from the market. Its new business model depends on adding passengers in Kuwait, and it maintains a Kabul route principally as the Safi Group's contribution to Afghan development. Alhmad seems successful, but his expertise is in Dubai real estate and he knows very little about the Afghan civil aviation market. The other two private Afghan air carriers also face considerable difficulty. KamAir and Pamir Airways allege they are losing money because of undercutting by state-owned and subsidized (insolvent) Ariana, and because of high government fees that do not provide them necessary ground services. KamAir remains marginally profitable only because

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it continues to evade full payment of its taxes in Afghanistan. Pamir has not been as successful at tax evasion, and has had its bank account docked for back taxes. We suspect Safi manages to avoid many taxes because of its connections; like KamAir, it is also bankrolled by a successful business group with deep pockets. End comment.

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